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FOR WHA/BSC, WHA/EPSC, AND EB/TRA
USTR FOR MARY SULLIVAN
NSC FOR SUE CRONIN
USDOC FOR ALEXANDER PEACHER
TREASURY FOR CHRIS KUSHLIS

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TAGS: ETRD EINV ECON PREL AR
SUBJECT: ARGENTINA REACHES SAFEGUARDS AGREEMENT WITH BRAZIL

REF: 05 BUENOS AIRES 01478

¶1. (U) This cable is sensitive but unclassified. Not for Internet distribution.

Summary

¶2. (SBU) Argentina and Brazil arrived at a bilateral safeguards agreement February 1. The widely publicized agreement is the result of over a year of negotiations, and is a political triumph for the GOA. Argentine industrial sectors pressured by Brazilian imports now have a formal mechanism with which to protect themselves. Because Argentina already imposed a variety of non-tariff barriers to Brazilian imports in certain sectors, and because those sectors comprise a small percentage of total Argentina/Brazil trade, the new agreement is unlikely to have much practical effect. End Summary.

The Agreement

¶3. (U) Argentina and Brazil arrived at a bilateral safeguards agreement February 1. The "Mechanism for Competitive Adaptation, Productive Integration, and Balanced Expansion of Trade" (MAC) will permit the application of safeguards if any industry sector in either country is able to show "a substantial increase in imports, in a specified period, that

causes or threatens to cause significant damage" to a sector of industry. (Note: that language closely correlates with language in the WTO Agreement on Safeguards. End Note.) The agreement is the result of intermittent negotiations that began when ex-Economy Minister Roberto Lavagna first mentioned the possibility of re-introducing a formal safeguards mechanism to Mercosur in September 2004. Mercosur members had agreed to phase out safeguards in 1999.

¶4. (U) The following are the MAC's salient features:

-- It will be managed by a bilateral commission that will monitor Argentina-Brazil trade. The composition of that commission is still to be determined, according to GOA Under Secretary of Industry Carlos Kadich.

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-- Any petitioner for protection must represent a minimum of 35 percent of the national production of a particular good or sector.

-- Upon receipt of a safeguard petition, the bilateral commission will instigate negotiations between the relevant private sector entities on both sides.

-- If those negotiations prove fruitless, the importing state may impose a quota of imports to be allowed to enter duty-free, while any further imports would be subject to an import duty of 90 percent of Mercosur's common external tariff (CET).

-- It is applicable for periods between one and four years. Once the safeguard lapses in a given sector, no further protection can be solicited for at least two years.

-- The decision by a party to the MAC to impose a safeguard is subject to a non-appealable arbitral panel composed of one Argentine, one Brazilian, and one third country national.

Predictable Reactions

¶5. (SBU) The GOA's Kadich told Econoff February 2 that the

MAC will be very positive for Argentina. Kadich said the MAC would allow investors to formulate business plans in the knowledge that a flood of Brazilian imports will not be allowed to destroy the value of their investments, and predicted that it would help Argentina siphon off some investment otherwise destined for Brazil. Jaime Campos, Executive Director of the Argentine Business Association (AEA), a group composed of the CEOs of over 60 major corporations, also said that he believes the MAC would be a positive for Argentine industry, although he cautioned that it would only affect a few sectors. Daniel Barbato, an official with Argentina's public-private export promotion foundation ExportAr, discounted the possibility that Brazil could use the MAC to keep out especially competitive Argentine products (e.g. wine, rice, wheat). Importers were (predictably) less optimistic, with General Manager of the Argentine Chamber of Importers Fernando Passarelli telling Econoff that the MAC is a "worrisome" development.

What This Means for Argentina/Brazil Trade

¶6. (SBU) Brazil has been gaining overall market share in Argentina for the past several years, and this has resulted in private Argentine producers, sometimes with the explicit backing and participation of the GOA, taking steps to restrict Brazilian imports in certain sectors. Those restrictions have taken the form of non-tariff barriers such as non-automatic license requirements and "voluntary" quota arrangements between private sector producers. The "problem" sectors (appliances, textiles, footware, carpets, televisions, paper) that have been the subject of such measures account for less than 10 percent of bilateral trade, however. As a consequence, the newly acquired ability to implement a more formal safeguard is not likely to have a significant effect. The question of why Brazil would agree to an idea it had been resisting for some time and which will likely anger elements of the Brazilian business community was addressed recently by Brazilian Political Counselor Julio

Bitelli. He told Econoff that the relationship with Argentina is central to Brazil's foreign policy, and Brazil is therefore willing to make concessions to keep its key partner happy. The MAC agreement is not expected to be much of a factor for U.S. firms operating in the region, as most that have operations in Argentina also maintain a presence in Brazil.

Comment

¶7. (SBU) The MAC is a political triumph for the Kirchner Administration, which has favored industry, and which will now claim credit for having taken concrete action to support a significant consituency after a year in which Argentina's trade deficit with Brazil doubled to approximately USD 3.6 billion. Balancing Argentina's deteriorating trade position with Brazil will require more than the relatively quick fix the MAC provides, however. Many observers believe that Argentina has become fundamentally less competitive than Brazil in the production of other-than-primary products (Reftel). Supporting that theory, Argentina's trade deficits with Brazil are growing rapidly even as the Brazilian Real has appreciated by over 30 percent against the Argentine Peso over the past two years. If Argentina is indeed growing less competitive, it would be better served avoiding quick fixes and devoting its energies toward the difficult work required to create a more welcoming investment climate. End Comment.

¶8. (U) For other Embassy Buenos Aires reporting, please visit our classified SIPRNET site at
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